

MSHDA POLICIES & PROCEDURES

SINGLE FAMILY - 95% - 97% LTV CONVENTIONAL LOAN PROGRAM

Effective Date: 9-10-08

Replaces Issue of: 04-10-08

Product Name: CONV 95-97

SUMMARY:

This is a 30-year fixed rate conventional or insured conventional loan available to low-to-moderate income borrowers who meet the MSHDA sales price and income limit eligibility guidelines. Many loan products are available and are outlined in the following section. If the borrower has had ownership interest in a primary residence in the last three (3) years, they are not eligible for the program unless they are purchasing in a targeted area (where there are no prior home ownership restrictions). All adult members of the household must apply jointly for the loan. Non-occupant co-borrowers and co-signers are not permitted.

PRODUCTS:

- MSHDA Conventional (standard)
- MSHDA Conventional with DPA option/max. 97% LTV
- MSHDA Conventional with Step Rate option/max. 95% LTV
- MSHDA Conventional with 2/1-buydown option/max. 95% LTV
- MSHDA Conventional with both Step Rate and 2/1-buydown options/max. 95% LTV

LOAN PURPOSE:

Purchase of Single family, owner-occupied primary residence ONLY

INCOME LIMITS:

Income limits apply and are available online at:

http://www.michigan.gov/documents/mshda_sf_income_and_sales_price_limits_100946_7.pdf

For loans with Down Payment Assistance, the income limits are less and are available online at:

http://www.michigan.gov/documents/mshda_dpa_2004_inc_lmts_4_26_04_88970_7.pdf

SALES PRICE LIMITS:

Sales price limits apply and are available online at:

http://www.michigan.gov/documents/mshda_sf_income_and_sales_price_limits_100946_7.pdf

REQUIREMENTS:

The borrower must occupy the property as his/her primary residence within 60 days of loan closing.

ELIGIBLE PROPERTIES:

- New or existing single family homes or condominiums (attached or detached).
- Maximum 95% LTV on new or existing multiple-section manufactured (mobile) homes on foundations permanently affixed to real estate with a

. NOTE: Existing multiple-section manufactured homes must have been constructed after 6/14/76.

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- New condominiums approved by FNMA or FHLMC, or insurer (FHA, VA, RD).
- New condominiums approved by MSHDA upon submission and review of “*Application for Condominium Project Authorization*”, form SFH 130.

ASSUMABILITY: The mortgage may be formally assumed; however, certain restrictions will apply with respect to income, credit and sales price limits.

LOAN TERM: 30-year term

**MINIMUM
LOAN AMOUNT:** There is no minimum loan amount

**MAXIMUM
LOAN AMOUNT:** The maximum mortgage amount for the applicable jurisdiction may not exceed the maximum loan as determined by the loan to value limit for the MSHDA loan program (95%, 97).

**MAXIMUM
LOAN TO VALUE:** 97% LTV / 103% CLTV

- Loan Cannot Include ANY Portion of a Financed Mortgage Insurance Premium
- MSHDA declining market guidelines will be applied to properties;
 - Located in a restricted market as defined by Mortgage Insurance provider.
 - Designated by the appraiser as in a market having declining values; or
 - Loans that receive a “Declining Markets” message from either Fannie Mae’s Desktop Underwriter or Freddie Mac’s Loan Prospector.
 - See underwriting section for guidelines on declining market properties.

**STEP RATE
OPTION:** For a conventional loan up to 95% LTV, a “step rate” option is available. This feature reduces the rate for the first three (3) years. The interest rate increases at year four (4) and remains constant for the balance of the 30-year term. The borrower is qualified for the payments at the initial rate. Different interest rates apply to the “step rate” loans and will be published by MSHDA at the same time as the regular program interest rates. The “step rate” option is **NOT** available with a conventional DPA loan.

**TEMPORARY
INTEREST RATE
BUYDOWN
OPTION:** A 2-1 temporary interest rate buydown option is permitted for fixed and step rate conventional loans providing the loan to value does not exceed

95%. The lender generally should use the actual note rate for the mortgage as the “qualifying rate”. However, the lender may use the “bought down” rate as the “qualifying rate” provided the mortgagor has a credit score of 660 or higher (or 680 or higher, if the borrower is self-employed). The temporary interest rate buydown option is **NOT** available with a conventional DPA loan.

SUBORDINATE FINANCING:

In conjunction with a 97% first mortgage, a MSHDA Single Family Down Payment Assistance (DPA) loan is available for households whose income does not exceed 80% of the area median income, adjusted for family size, except where lower by state law. The DPA is a 0%, non-amortizing, “soft” second mortgage loan to assist with the down payment, closing costs, and prepaid expenses. The second mortgage is due on refinance, sale or transfer of the property. The borrower is required to invest a minimum of 1% of the sales price. The maximum DPA available is \$7,500. A liquid cash asset limit applies, which is \$5,000. For Individual Development Account Participants, the matched funds are not used in calculating the liquid cash assets. **NOTE:** Cash back at closing is **not permitted**, except for POCs listed on the HUD-1 Settlement Statement, which are in excess of the borrower's required 1% cash investment.

Any other subordinate financing may be allowed on a case-by-case basis. The terms and conditions of the subordinate financing must have prior written approval of MSHDA.

QUALIFYING RATIOS:

Generally, the ratios should not exceed 30%/39%

THIRD PARTY CONTRIBUTIONS:

An interested party is anyone (other than the property purchaser) who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. This includes the property seller, the builder/developer (or an affiliate who may benefit from the sale of the property), and the real estate agent or broker. When the property purchaser receives financial assistance from a relative, domestic partner, fiancé, fiancée, municipality, nonprofit organization, or employer, MSHDA does not consider the provider of the assistance to be an interested party to the sales transaction unless the person or entity is the property seller (or is affiliated with the property seller).

1. The maximum allowable contributions from interested parties are limited to
 - 3% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence, if the loan-to-value ratio (or, if applicable, the combined loan-to-value ratio) is greater than 90%;
 - 6% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence, if the loan-to-value ratio (or, if applicable, the combined loan-to-value ratio) is in the range from 76% to 90%; or
 - 9% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence or second

home, if the loan-to-value ratio (or, if applicable, the combined loan-to-value ratio) is 75% or less.

These contributions are allowed for closing costs and certain prepaid settlement costs only. Certain prepaid settlement costs are defined as: interest charges covering any period after the settlement date, real estate taxes covering any period after the settlement date, hazard insurance premiums, and any escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.

2. Any time a borrower is also receiving a MSHDA Single Family DPA, the borrower must still invest 1% of the lesser of the sales price or appraised value **AND** the amount of DPA will be reduced by the amount of the third party contribution.

UNDERWRITING:

1. Minimum credit score FICO requirement is 620.
2. Include all outstanding debt with more than 10 months remaining.
3. Loans with nontraditional credit require a manual underwrite and are limited to a 95% LTV.
4. The minimum borrower contribution is 3% of borrowers own funds if representative Credit Score FICO is less than 660.
5. Declining market value areas, will require these extra underwriting parameters;
 - a) Minimum FICO is 620
 - b) Loans with LTVs of 95.01% to 97% require a manual underwrite by MSHDA and Mortgage Insurance Company
 - c) Minimum borrower contribution is 3% of borrowers own funds regardless of FICO/Credit score.
 - d) Attached properties (i.e.: condominiums) are subject to a maximum LTV of 90%
6. Deferred Student Loans must be included in DTI ratio.
7. MSHDA will accept an Underwriting Package that has received a credit recommendation of "Accept/Accept Plus" from Loan Prospector (LP), or "Approve/Eligible" from Desktop Underwriter (DU). The information provided in the loan application, source documents and verifications must conform to the information contained in the DU or LP recommendations and all approval conditions must be satisfied and adequately documented.

Since MSHDA has certain regulatory requirements, which must also be met, the following guidelines are provided:

 - a. MSHDA will accept the loan determination of loans receiving an "Accept/Accept Plus" or "Approve/Eligible" from LP or DU. Lenders are responsible for ensuring that all other MSHDA regulatory requirements are met.

- b. Credit recommendations other than "Accept/Accept Plus" or "Approve/Eligible" must be manually underwritten and approved by the Lender's underwriter and must meet all standard MSHDA guidelines as well as the insurer's stated program guidelines.
- c. The appropriate approval (LP Feedback Report or DU Findings Report) must be included in the loan submission package to MSHDA. These are to be placed on top of the Residential Loan Application (1003) when submitting the file to MSHDA. The Lender's Underwriter must sign this approval certifying as to the validity of the information submitted for the LP or DU recommendation. Lenders are expected to include the Feedback Report of Findings report for loans, which received a "Refer" or "Refer with Caution" but were subsequently approved by the Underwriter.
- d. Any time a MSHDA Down Payment Assistance 2nd mortgage (SF-DPA) or other subordinate financing is part of the financing, the subordinate loan must be entered in LP or DU as subordinate financing and not as a gift. All subordinate financing must be included in the combined loan to value.
- e. Regardless of the private mortgage insurance coverage stated in the LP/DU determination, the minimum mortgage insurance coverage in the Mortgage Insurance Section of these product specs. apply.
- f. MSHDA reserves the right to require further information to ensure compliance of the Underwriting Package.
4. Credit reports that have a FICO credit score of "000" due to the lack of a credit history, may still be acceptable providing evidence of two satisfactory alternative credit reference letters are submitted.
5. All collections, judgments, civil liens and charge-offs must be paid-in full. Verification that collections are paid should accompany a statement from the borrower stating the reasons for derogatory information.
6. Previous bankruptcy:
- Chapter 7 - Generally, the borrower should be discharged from a Chapter 7 Bankruptcy for at least 24 months prior to loan application date and have satisfactory re-established credit.
 - Chapter 13 – A Chapter 13 Bankruptcy may be considered for loan approval upon discharge with documentation to evaluate the applicant's overall financial strength and established credit history.
7. Foreclosure or Deed in Lieu of Foreclosure:
A borrower whose principal residence or other real property was foreclosed or gave a deed-in-lieu of foreclosure within the previous three (3) years is generally not eligible for a new MSHDA mortgage. However, if the foreclosure or deed-in-lieu of foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower and the borrower has re-established good credit since the foreclosure, MSHDA may grant an exception to the

three-year requirement. Further information is available in Section 11.7 of the Single Family Operating Manual.

RENT CREDIT: If the borrower had a lease with an option to purchase and exercises that right to purchase, the total amount of rent credit that can be given to the borrower is the amount paid over and above the Fair Market Rent for the particular area, as established by the appraisal. Lenders should be certain the appraiser reflects the Fair Market Rent in the appraisal if they are using a rent credit.

**WORK CREDIT/
SWEAT EQUITY:** Work credit/sweat equity will be restricted to work for which the borrower is reasonably qualified by experience and training. Documentation supporting the borrower's qualifications may be required under certain circumstances. MSHDA will require personally accumulated cash from the borrower of at least 2½% of the sales price where work credit/sweat equity is being used (conventional and conventionally insured loans). Work credit/sweat equity may consist of labor items only. A written work credit/sweat equity agreement, signed and dated by the seller and the borrower, is required. The agreement will identify the labor and the amount of credit for each labor item. Allowances for materials must be identified separately. Credit for materials is only permissible if supported by paid invoices identifying the subject property.

**HOMEBUYER
EDUCATION:** Borrowers are required to receive homebuyer education counseling if the LTV is 97% or greater **OR** any time the borrower is receiving a Single Family DPA second mortgage. The homeownership counselor must be a MSHDA LINKS to Homeownership Certified Counselor. A list of certified counselors is available at: www.michigan.gov/mshda/.

**MORTGAGE
INSURANCE:** 1. Acceptable Insurers: Private mortgage insurance is acceptable only from companies authorized to issue mortgage insurance, licensed to do business in Michigan, rated "AA" or greater by Standard and Poor or an equivalent rating by another nationally recognized rating agency, and approved by MSHDA.

2. Required Coverage: The amount, terms, and extent of insurance coverage must be in accordance with the particular bond issue as directed by MSHDA.

Below are the required insurance coverage requirements for private mortgage insurance.

<u>Initial LTV</u>	<u>Coverage Required</u>
95.1 – 97%	28%
90.1 – 95%	25%
80.1 – 90%	20%
80% - below	0%

3. Financed Mortgage Insurance: The loan amount cannot include any portion of a financed mortgage insurance premium.

**ALLOWABLE
FEES:**

The lender may collect an Origination Fee of up to 1% of the loan amount. The lender may also be reimbursed for expenses incurred in processing, such as credit reports, appraisals, surveys, etc., not to exceed the actual cost of these expenses.

**FEDERAL
RECAPTURE
TAX:**

If property is sold within nine (9) years from the date of loan closing, the borrower may owe a recapture tax. This tax is based on the household income and family size during the year of resale, and on the length of time the borrower occupied the property. Borrowers who must pay this tax will be reimbursed by MSHDA upon proof of actual tax paid, with copies of IRS form 8828 and copy of 1040's.

**RECAPTURE
TAX
REIMBURSEMENT
PROGRAM:**

MSHDA recognized that this may be a concern for individuals, so the **Recapture Tax Reimbursement Program** was created. In the event a borrower is required to pay a recapture tax, MSHDA will reimburse borrowers for any recapture tax paid by the borrower to the IRS. To request reimbursement, homeowners simply provide MSHDA with an IRS form 8828 and a signed copy of their IRS 1040 form.

LOAN DOCUMENTATION REQUIREMENTS:

**APPLICATION
DOCUMENTS:**

Refer to "*Loan Submission Checklist*", SFH 134, for required documents. (This form is located in the Miscellaneous Documents Section of the Lender on Line Web site.). The application documents are:

1. Mortgage Loan Data Summary Sheet, SFH 117
2. Mortgage Insurance Certificate
3. Loan Application (FNMA 1003)
4. Counseling Certificate, as applicable
5. Evidence of Social Security Number
6. Copy of Driver's License
7. Credit Report
8. Verification of Income
9. Verification of Assets
10. Purchase Agreement/Contract to Build
11. Appraisal
12. Initial Application Affidavit, SFH 106(4/06)
13. Signed Federal Tax Returns for last 3 years, as applicable
14. Required Builder Information, as applicable: Builder's License (to be retained in lender's file), and Equal Opportunity Builder Certificate (SFH 100)
15. FNMA 1008, Transmittal Summary signed by Lender's Underwriter

CLOSING

DOCUMENTS:

The most current version of all mortgage document forms must be used.

- a) Conventional Mortgage, Note & Assignment:
 - i. Fannie-Freddie Michigan Mortgage 3023
 - ii. Fannie-Freddie Multistate Fixed Rate Note 3200
 - iii. Assignment of Mortgage, SFH 102
 - iv. Universal Tax Exempt Financing Rider SFH 122U
- b) Step Rate Conventional Mortgage, Note & Assignment:
 - i. Step Rate Conventional Mortgage, SFH 100
 - ii. Step Rate Conventional Note, SFH 101-C
 - iii. Assignment of Mortgage, SFH 102
 - iv. Universal Tax Exempt Financing Rider SFH 122U

NOTE: Refer to “Conventional Mortgage Document Control Sheet”, SFH 135, or “Conventional-Step Loan Mortgage Document Control Sheet”, SFH 137, for **other** required documents. This form is located in the Conventional or Conventional-Step Loan Sections of the Lender on Line Web site under Closing Documents.

- i. 2nd Mortgage & Mortgage Note: (DPA-Conventional only, not available with Step-Loans)
 - i. Mortgage, SFH 100-C (Reservations on or after 7/1/03)
 - ii. Mortgage Note, SFH 101-D (Reservations on or after 7/1/03)

NOTE: Refer to “Conventional Down Payment Assistance Mortgage Document Control Sheet, SFH 136, for **other** required documents. (This form is located at the Lender on Line Web site under the link for Down Payment Assistance.)

**TITLE INSURANCE/
PRIVATE MORTGAGE
INSURANCE:**

The name of the insured on all title insurance policies or private mortgage insurance certificates may read:

“[Lender’s name], its successors and/or assigns”

**SHORT FORM
TITLE INSURANCE
POLICY:**

A short form title policy issued at closing is acceptable.